

Snap | 21 June 2018

China retaliation coming

A state-run newspaper in China has published an editorial saying the country could retaliate against US stocks if the trade war escalates



Source: Shutterstock

Retaliation directly on US companies

Even China couldn't match the US's threat of imposing as much as \$450 billion worth of tariffs on Chinese imports, as the US only exports about \$130 billion to China. In recent days, China said it could retaliate "qualitatively". Now, we're clear what "qualitative" means; China could target US stocks.

The [official newspaper's editorial](#) emphasised that China could hurt US companies listed on the Dow Jones industrial average if the trade war were to escalate. The editorial wrote, "The 30 companies that make up the Dow Jones average may be some of the first to bear the brunt of China's countermeasures".

How to "hurt US stocks"?

We believe that China may impose administrative hurdles on US companies operating in China, which would then have an impact on stock prices. The practice could be similar to the administrative measures on South Korea's Lotte Department Stores in China, which involve an examination of goods before they can be shelved.

We don't expect China to short stocks in financial markets because affecting business operations of US companies operating in China is more controllable by the Chinese government than doing this through the stock market.

Would this end the trade war?

No, we don't expect this would end the trade dispute. Quite the reverse, we expect some tough talk between the US and China to follow, though this could be effective in delaying the process of a trade war.

For the time being, US companies could lobby the US government intensively and extensively to avoid a further rise in trade tensions. As the editorial mentioned, the risk of a fall in the Dow Jones goes up with these measures, potentially hurting retirement funds and therefore prompting more lobbying on the US government.

China's other weapon

China's other weapon could be to sell US Treasuries. This isn't a remote possibility if the US administration insists on imposing more tariffs on China.

Impact on markets, production and trade, globally

Given that the supply chains of US companies are likely to be sourced globally, the impact is not limited to the stock market. If China were to affect business operations of US companies operating in China, we would expect production, sales, and trade to be affected globally, not just in China and the US. Investment decisions by these US companies and their supply chains will also be disturbed. World economic growth will slow, not just China and US.